Zydus Wellness Ltd

Soft Q4

MIRAE ASSET Sharekhan

Stock Update | Result Update

Consumer Goods	Sharekhan code: ZYDUSWELL
Reco/View: **Buy** ⇔	CMP: **Rs. 1,987** / Price Target: **Rs. 2,304** ⇔

3R MATRIX

	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

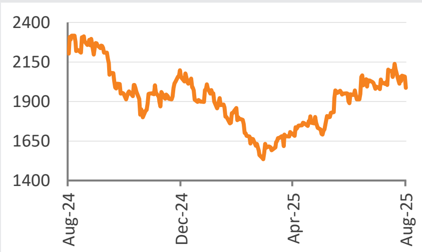
Company details

Market cap:	Rs. 12,642 cr
52-week high/low:	Rs. 2,361 / 1,493
NSE volume: (No of shares)	0.7 lakh
BSE code:	531335
NSE code:	ZYDUSWELL
Free float: (No of shares)	1.9 cr

Shareholding (%)

Promoters	69.6
FII	3.9
DII	19.3
Others	7.2

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.4	15.3	10.4	-10.6
Relative to Sensex	2.8	15.4	7.3	-13.1

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Zydus Wellness Limited's (ZWL's) Q1FY26 numbers were soft, with revenues growing by 2% y-o-y, while OPM fell 40 bps y-o-y to 18% and PAT declined by 13% y-o-y.
- Shorter summers and unseasonal rains hit performance. Excluding seasonal brands, growth was in double digits.
- We expect ZWL to clock a revenue/PAT CAGR of 12%/20%, respectively, over FY25-27 driven by a focus on margin resilience, tech-enabled efficiencies and sustainable growth through innovation and disciplined expansion.
- Stock trades at 31x/26x its FY26E/FY27E EPS, respectively. We maintain a Buy with an unchanged PT of Rs. 2,304.

ZWL's Q1FY26 numbers were soft, with muted revenue growth and lower margins that dragged down PAT. Consolidated revenue grew by 2.4% y-o-y to Rs. 861 crore, in line with our expectation of Rs. 858 crore. Personal care category grew by 3.8% y-o-y, while the food & nutrition category clocked a 1.6% y-o-y growth. Shorter summers and unseasonal rains hit seasonal brands and led to lower revenue growth. However, excluding the seasonal brands, ZWL registered strong double-digit growth in Q1. Gross margins fell 66 bps y-o-y to 55%, while OPM declined by 43 bps y-o-y to 18%, beating our expectation of 17.4%. Operating profit stood flat y-o-y at Rs. 155 crore. This coupled with higher depreciation led to 3.5% y-o-y decline in the adjusted PAT to Rs. 143 crore, beating our expectation of Rs. 135 crore. Reported PAT declined by 13.4% y-o-y to Rs. 128 crore.

Key positives

- Everyuth scrub's market share rose by 262 bps y-o-y to 48.7%.
- Sugar Free brand maintained its leadership in the sugar substitute category with a market share of 96.1%.
- Glucon-D maintained its leadership position with a 58.9% share.
- ZWL returned to a net cash positive position.

Key negatives

- Revenue growth was muted at 2% in a seasonally strong quarter impacted by unseasonal rains and short summer.

Management Commentary

- Rural markets sustained their growth leadership, outpacing urban areas, driven by strong performance in branded commodities, personal care and dairy segments, while seasonal categories faced headwinds due to a shorter summer and unseasonal rains.
- Non-seasonal portfolio remained strong, cushioning overall performance, led by ZWL's recent acquisition - Ritebite Max Protein, Everyuth and Nutralite.
- Ongoing business excluding the acquisition and seasonal brands delivered double-digit y-o-y volume and value growth. Including the seasonal brands, volume growth stood flat y-o-y.
- Tier-2 and Tier-3 cities are emerging as key growth drivers, positioning the business well for its next phase of expansion.
- Organised trade saliency continued to improve, reaching 30.9% in Q1FY26 from 23.3% in Q1FY25. Within this, e-commerce contributed 14.5%, and modern trade contributed 16.4%.
- ZWL's current direct reach is 6.1-6.2 lakh outlets and total reach is 2.8 million outlets. The company is planning to expand to another 80,000 outlets in FY26, with an aim to increase total reach to 3.5-4 million outlets in the coming years.
- The momentum of Ritebite brand since acquisition exceeds expectations and it is gaining substantial acceptance across channels. The brand has historically grown more than 25%, and the momentum of ~25% growth is expected to continue for the next 4 to 5 years.
- Management guided that input cost inflation is beginning to show signs of easing, providing optimism for margin recovery in the coming quarters.
- Other than Complan, ZWL's brands (Nutralite, Sugar Free, Everyuth scrubs, Everyuth peel-off, Glucon-D, Nycil) are market leaders in their core categories. As a market leader, ZWL aims to grow these categories through brand-led communication, building relevance, driving distribution, being available across omnichannel.

Revision in earnings estimates – We have maintained our earnings estimates for FY26 and FY27 and will keenly monitor the performance in the coming quarters.

Our Call

View – Maintain Buy with an unchanged PT of Rs. 2,304: ZWL's Q1FY26 performance was soft with muted revenue growth and decline in PAT hit by seasonal vagaries. The management is confident of double-digit revenue growth and improvement in margins in FY26. In the medium term, a large focus is on achieving consistent double-digit revenue growth through distribution expansion, doing consumer-centric innovations, and higher marketing campaigns. We expect revenue and PAT to report a CAGR of 12% and 20%, respectively, during FY25-FY27E. Stock trades at 31x/26x its FY26E/FY27E EPS, respectively. We maintain a Buy with an unchanged PT of Rs. 2,304.

Key Risks

Slowdown in sales of key categories or disruption caused by the weakening of consumer sentiments or any seasonal vagaries remains key risk to our earnings estimates.

Valuation (Consolidated) — Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
Revenue	2,255	2,328	2,709	3,062	3,399
OPM (%)	15.0	13.2	14.0	15.0	15.6
Adjusted PAT	320	277	342	410	488
% YoY growth	3.7	-13.4	23.4	19.6	19.3
Adjusted EPS (Rs.)	50.4	43.6	53.8	64.4	76.8
P/E (x)	39.5	45.5	36.9	30.9	25.9
P/B (x)	2.5	2.4	2.2	2.1	1.9
EV/EBITDA (x)	37.2	40.5	33.0	27.3	23.4
RoNW (%)	6.4	5.3	6.2	7.0	7.8
RoCE (%)	6.0	5.4	6.3	7.3	8.1

Source: Company; Mirae Asset Sharekhan estimates

Key business highlights

- Everyuth delivered consistent growth led by sustained double-digit performance, driven by innovation, product excellence, strong distribution and customer-centric experiences. Everyuth leads key subsegments with a 48.7% share in scrubs (up 262 bps y-o-y) and 77.2% in peel-off masks (down 56 bps y-o-y). Overall presence, the brand ranks fifth in facial cleansing with a 7.8% share, up 89 bps y-o-y.
- Nycil saw a temporary dip in Q1 due to early monsoons but maintained its No. 1 position with a market share of 33.3%. The prickly heat powder category grew at 5.7%.
- Glucon-D maintained its No. 1 position in the glucose powder category with a market share of 58.9%. The glucose powder category grew by 2.8% at the MAT level. Glucon-D Activors, the Electrolyte Energy Drink was rolled out across the broader national footprint.
- Complan currently holds a market share of 4.0%. The nutrition drink category reported a decline of 2.6% with the continued softness across key metrics.
- Sugar Free brand continued to maintain its dominant position, holding a 96.1% market share in the sugar substitute category, which has grown by 4.9% at the MAT level. Sugar Free D'lite delivered encouraging results with deeper distribution and health-conscious snacking trends driving the momentum. Sugar Free Green continued to outperform, reflecting strong consumer affinity for natural alternatives and sustained volume-led growth. I'm lite continued to promote healthier living through ongoing campaigns, encouraging consumers to switch from regular sugar and cut calorie intake by half, supporting easier weight management and better daily choices.
- ZWL continued to broaden the Nutralite portfolio through focused innovation, growth momentum sustained by robust execution from focused B2B and B2C teams, enabling deeper market penetration and operational efficiency.
- Post the successful acquisition of Naturell (India) Private Limited in the latter part of FY25, the business continues to outperform the earlier estimates, reinforcing ZWL's strategic intent and portfolio expansion strategy. Brand delivered robust growth during Q1 with Ritebite Daily Bars leading the performance and further strengthening the brand's position in the high-growth, better-for-you snacking category.

Results (Consolidated) Rs cr

Particulars	Q1FY26	Q1FY25	Y-o-Y (%)	Q4FY25	Q-o-Q (%)
Net Revenue	**860.9**	**841.0**	**2.4**	**913.1**	**-5.7**
Material cost	387.8	373.3	3.9	411.7	-5.8
Employee cost	68.2	59.4	14.8	73.3	-7.0
Advertisement and Sales Promotion	132.5	124.3	6.6	108.0	22.7
Other expenditure	117.1	128.7	-9.0	129.6	-9.6
Total expenditure	**705.6**	**685.7**	**2.9**	**722.6**	**-2.4**
Operating profit	**155.3**	**155.3**	**0.0**	**190.5**	**-18.5**
Other Income	3.3	5.0	-34.0	0.1	-
Interest Expense	2.5	3.6	-30.6	4.2	-40.5
Depreciation	10.8	5.1	-	13.2	-18.2
PBT	**145.3**	**151.6**	**-4.2**	**173.2**	**-16.1**
Tax	2.8	3.9	-28.2	1.5	86.7
Adjusted PAT	**142.5**	**147.7**	**-3.5**	**171.7**	**-17.0**
Exceptional item	-14.6	0.0	-	0.0	-
Reported PAT	**127.9**	**147.7**	**-13.4**	**171.7**	**-25.5**
Adjusted EPS (Rs.)	22.4	23.2	-3.5	27.0	-17.0
			bps		**bps**
GPM (%)	55.0	55.6	-66	54.9	4
OPM (%)	18.0	18.5	-43	20.9	-282
NPM (%)	16.6	17.6	-101	18.8	-225
Tax rate (%)	1.9	2.6	-65	0.9	106

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Volumes and margins to recover gradually

Consumer goods companies are seeing early signs of recovery with volume growth of most companies improving. We expect gradual uptick in volume growth on low base in the coming quarters driven by expectations of good monsoon, income tax benefits, interest rate cuts, and a gradual improvement in the macroeconomic environment. We believe large improvement in the volume growth could be seen in H2FY26 amid stable demand. We expect margins to remain lower in the coming quarters and if input prices stabilise in the coming months, we might see margins rise from H2FY26.

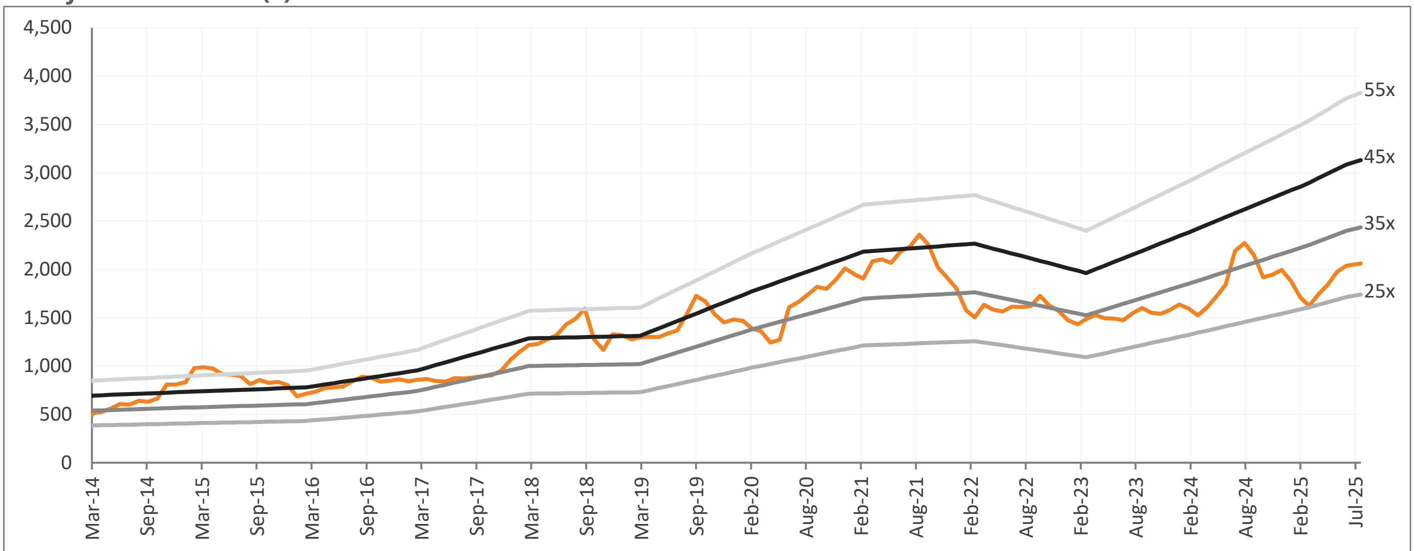
■ Company Outlook – Strong growth ahead driven by multiple levers

In the medium term, ZWL banks on three pillars – accelerating growth of core brands, building international presence, and significantly growing scale – to drive growth. Scale-up of the international business and some of new launches maturing will improve growth prospects in the long run. Key brands maintain their strong leadership position and gain market share consistently. Margins are expected to improve with the correction in prices of key input materials and better operating efficiencies.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 2,304

ZWL's Q1FY26 performance was soft with muted revenue growth and decline in PAT hit by seasonal vagaries. The management is confident of double-digit revenue growth and improvement in margins in FY26. In the medium term, a large focus is on achieving consistent double-digit revenue growth through distribution expansion, doing consumer-centric innovations, and higher marketing campaigns. We expect revenue and PAT to report a CAGR of 12% and 20%, respectively, during FY25-FY27E. Stock trades at 31x/26x its FY26E/FY27E EPS, respectively. We maintain a Buy with an unchanged PT of Rs. 2,304.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Dabur India	53.6	47.8	42.5	40.6	36.4	32.6	19.5	20.7	22.0
Zydus Wellness	36.9	30.9	25.9	33.0	27.3	23.4	6.3	7.3	8.1

Source: Company; Mirae Asset Sharekhan Research

About company

ZWL is the listed entity of Zydus Group and one of the leading companies in the fast-growing Indian consumer wellness market. With the launch of India's first zero calorie replacement of sugar, called Sugar Free, in 1988, ZWL began its journey as India's leading consumer wellness company. Since then, the company has grown into a larger business, spanning the entire wellness spectrum with seven power brands – Complan, Sugar Free, I'm lite, Glucon-D, Everyuth, Nycil, and Nutralite. The company is the market leader in most of its product categories.

Investment theme

Zydus has a strong brand portfolio that leads its respective categories. Sugar Free brand has a ~95% market share in the artificial sweetener category, while Glucon-D has a ~59% market share. Over the past three years, the company has consolidated and grown its market share across categories, launched multiple innovations, doubled its direct distribution reach, made significant strides in growing business ahead of the category in both online and offline organised trade, reduced cost, and simplified the organisation, leading to synergy benefits. We expect revenue and PAT to report a CAGR of 12% and 20%, respectively, during FY25-FY27E.

Key Risks

- ZWL is largely present in niche categories, which are discretionary in nature. Any slowdown in the macro environment would affect growth of these categories.
- ZWL is facing stiff competition in skin care products such as face wash and scrubs from multinationals, which has affected revenue growth of these categories.

Additional Data

Key management personnel

Name	Designation
Sharvil Pankaj Patel	Chairman
Tarun Gian Arora	Chief Executive Officer
Umesh Parikh	Chief Financial Officer
Nandish P. Joshi	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PPFAS Asset Management	6.91
2	Nippon Life Asset Management Ltd.	6.16
3	Quant Money Managers Ltd.	4.44
4	Vanguard Group Inc.	1.13
5	Bharti AXA Life Insurance Co Ltd.	0.36
6	Norges Bank	0.35
7	Dimensional Fund Advisors LP	0.32
8	Bajaj Finserv Mutual Fund	0.24
9	Blackrock Inc.	0.15
10	Baroda Mutual Fund Ltd	0.09

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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